

# HOW THE COTTON COMMODITY MARKET WORKS

## “IMPACTS OF FARM FAMILY STRESSORS

- Physical and mental chronic health problems among family members
- Depression, anxiety, despair, and suicide
- Injuries
- Opioid misuse, addiction, and overdose
- Loneliness and social isolation
- Inhibited decision-making and adoption of agricultural practices
- Lack of access to health care
- Postponement of preventive care
- Concern of inability to pay for medical care costs
- Juggling on- and off-work to get and pay for health insurance”

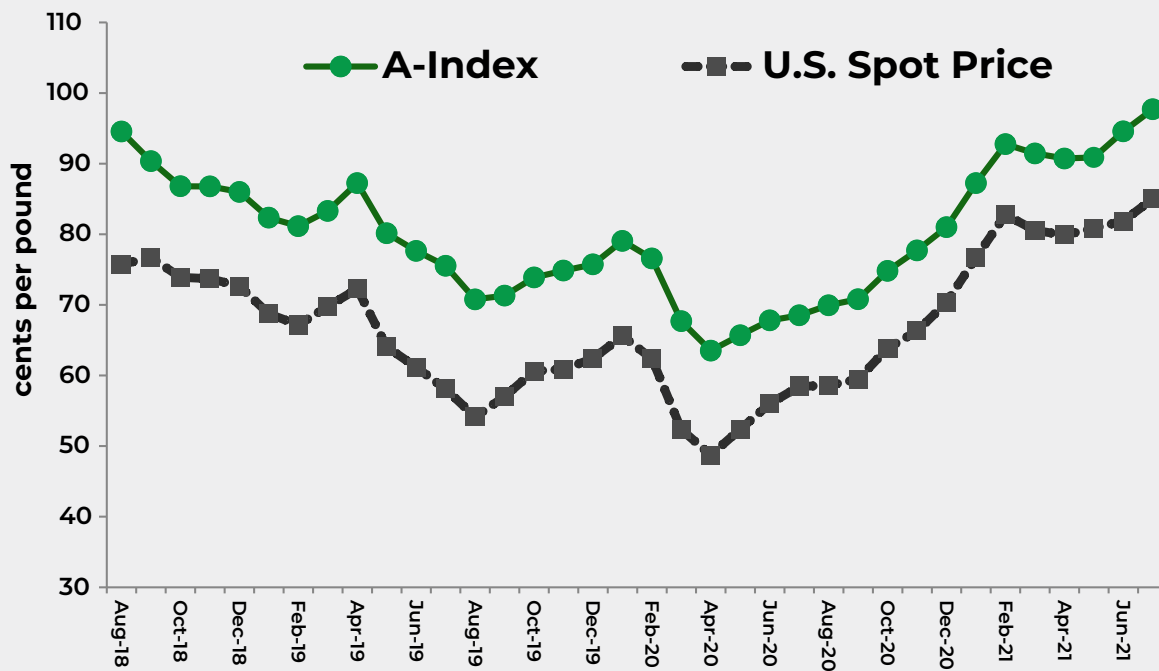
- Bonnie Braun, PhD<sup>5</sup>

Understanding the need for a new model first requires insight into the one we’ve always used. Jay Boyette, Commodities Director on North Carolina Farm Bureau’s Public Policy Team, has an inside perspective. “The majority of the cotton North Carolina growers produce is likely marketed by a third-party organization. There’s Staple Cotton Cooperative Association, Carolina Cotton Growers Cooperative — those groups put together a pool of product from many farmers,” he explains.

“When cotton’s planted — like anything in agriculture — you don’t know what the final product’s going to be,” Boyette adds. “We’ve got all different qualities that determine a lot about how cotton can be used. Depending on the strength and length of the fiber, it can be used for anything from a pair of blue jeans to some 1000-thread sheets you might have for your bed. Most farmers are much better at producing the cotton than identifying buyers for it, so having a place to sell all those grades is beneficial for them.”

Andrew Burleson is a 3<sup>rd</sup> generation NC farmer who sells mostly through marketing co-ops. He agrees with Boyette that it’s easier for him to focus on doing what he does well — growing cotton — and let the co-op handle the marketing and selling.

## MONTHLY AVERAGE COTTON PRICES<sup>6</sup>



*TS Designs President Eric Henry calls fluctuating prices a commodity roller coaster. It's easy to see the ups and downs in this image from the US Department of Agriculture. Prices that fluctuate constantly create income uncertainty for cotton farmers. Note the A-Index represents an average global price of cotton. The US Spot Price is the price of cotton at a particular moment in time.*

“We sell mostly through a marketing cooperative,” says Burleson. “So, we’ll get an average price over the marketing year, and we’ll feel like we can survive from one year to the next hitting base hits rather than trying to swing for the fence and pound the market when it’s the highest price. We’re never going to get that right.”

What they can get right is harvesting the crop they’re so good at growing. “When cotton farmers harvest cotton, near the end of the season, they’re putting it in giant modules that go to the gin, and they’re taking samples,” explains Boyette.

“The gin process removes leaves and trash impurities from the cotton and takes the seed out, so they’re left with the fiber. Samples of the fiber are sent off, graded and classed to determine the characteristics of that

particular module of cotton,” he adds. “Before all that happens, farmers have already made an agreement with the marketing co-ops. Unless they’re marketing themselves, the co-op pool will take possession of the cotton and score it. Then it’s easy for someone from China or somewhere else who’s making a certain type of t-shirt or fabric to order the type of cotton they need.”

“There’s a deadline when we have to sign up in the pool, and then they start marketing in April,” says Burleson. “They’ll market a crop for probably 16 months. So, for example, for the crop that we grew in 2020, once it was ginned, graded, and possibly sold, it was out of our hands, and we won’t know what we’ll get for that crop until September of 2021.” Payment is spread throughout those 16 months. “Once they make the initial payment, depending on how the marketing

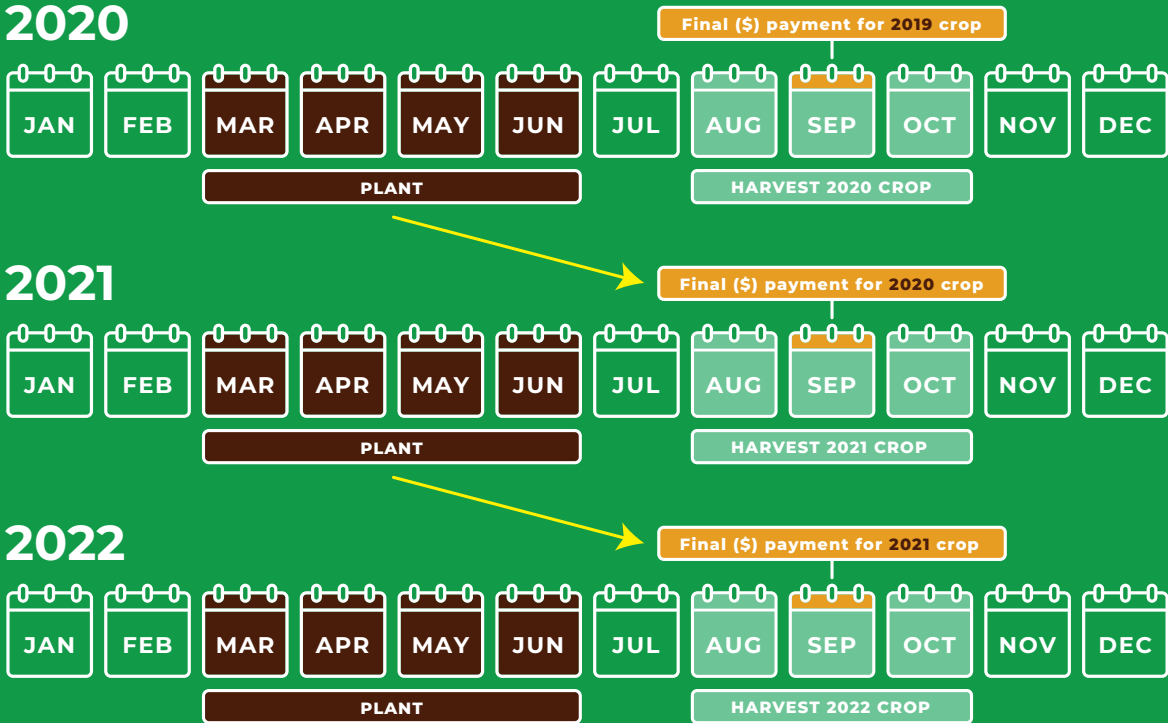
year and sales go, they'll also pay you a little bit, three or four times throughout the year," Burleson adds. "The final payment comes in September, so it's almost time to harvest the following year's crop before we know what we actually got for the previous year. That's the model we're currently working with."

Boyette explains the pricing a little more in depth. "Pricing — just like with any other product you're producing — depends on quality," he says. "The lower the quality, the lower the price. The higher the quality, the higher the price. It's often to the farmers'

advantage to be in that pool because now a buyer can easily get what's needed. If you're a large shirt manufacturer, for example, it's simpler to deal with Staple Cotton and meet all of your needs rather than interact with 400 different farmers to get the volume you need for what you're trying to accomplish."

From a farmer's perspective, it's not all bad. Burleson explains, "It's hard to be an expert at everything, and we're certainly not," he says. "So, I'll just say that's one less headache. We'll put the cotton in the pool and let somebody else manage it."

# SCHEDULE FOR PLANTING, HARVESTING AND RECEIVING FINAL PAYMENTS



*When farmers sell their cotton through a marketing cooperative, they're essentially giving the co-op full responsibility for marketing and selling their crop, with the understanding that the price they'll get is an average over the course of the marketing year (about 16 months). They won't know the final price of — or receive the final payment for — a given crop until they're already harvesting the next year's cotton.*